



Memorandum 2 /2005

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
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Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Effective Date of New Actuarial Equivalent

DATE: January 7, 2005

On December 22, 2004, the Commission voted unanimously to approve the mortality table and interest rate prepared by the PERAC Actuary and authorized by Sections 66 and 336 of Chapter 149 of the Acts of 2004. The Commission also voted to establish the effective date for the newly adopted tables as July 1, 2004. The Commission discussed the possibility of allowing retirees who began receiving allowances on or after July 1, 2004 to select a new option. It decided that the above-cited sections of the FY05 Budget gave authority to select the mortality table and interest rate and to establish the effective date of the new table, but did not give the Commission the authority to allow persons who are retired to change the option that had been selected at retirement. As you know, such action is prohibited by G.L. c. 32, § 12.

As discussed below, the allowances of members who retired with an effective date on or after July 1, 2004 will be recalculated, but they will not be allowed to select a different option. This Memorandum supersedes earlier PERAC memoranda on this topic and outlines the Board actions necessitated by the Commission's decisions.

Option A and Option B factors

Option A and revised Option B factors effective July 1, 2004 were issued on December 23, 2004 (PERAC Memo #48/2004). The revised Option B factors replaced the factors that were released November 30, 2004 as part of PERAC Memo #44/2004. The new Option B factors are to be used for calculations and recalculations of all Option B allowances that are effective and payable on or after July 1, 2004. There is no change to the Option A factors from the November 30, 2004 memo. Please note that the total

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allowance under Option A will not change with these new factors. The only change under Option A will be the annuity/pension allocation.

Option C Factors

The Option C factors that were released on September 30, 2004 with PERAC Memo # 37/2004 are to be used for calculations and recalculations of all Option C allowances that are effective and payable on or after July 1, 2004.

Impact on Retirement Allowances Effective and Paid Prior to July 1, 2004

Only retirement allowances that became effective and payable **on or after July 1, 2004** will be impacted by the adoption of the new actuarial equivalents and option tables.

Recalculation of Allowances for Retirees Receiving Allowances

The Commission determined that the allowances of all retirees with an effective retirement date on or after July 1, 2004 are to be recalculated using the new factors. Likewise, beneficiaries of members who died in service on or after July 1, 2004 and receive an allowance under Option D will be recalculated in the same manner. Boards will be required to make payments to these retirees and beneficiaries in an amount equal the difference between the amount that the individual actually received and the amount that would have been received with the application of the new factors. As noted above, retirees will not be allowed to change the option selected at retirement.

Calculation of Allowances for Members Who Deferred Retirement

We are advised that some members terminated employment between July 1, 2004 and December 27, 2004 and deferred retirement until that date, perhaps because of the anticipated effective date of the new factors. If they wish, these members are to be allowed to retire effective on the date that they terminated service and stopped receiving regular compensation. They are to be allowed to make an option selection at this time and their allowances will be calculated using the new factors.

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Calculation of Disability Retirement Allowances

Members who retire for disability complete their option selection at the time that their retirement is ultimately approved. The retirement allowance of any disability retiree who made his or her option selection on or after July 1, 2004 is to be calculated using the new tables.

Filings with the State and Federal Taxing Authorities

The implementation of the Commission's determination may result in changes in the pension/annuity allocation of allowances that were paid during calendar year 2004. These new allocations will need to be made for accounting purposes. However, PERAC's tax counsel advises that the change in the Option factors does not change the computations made for taxation of the annuity portion of the pension for federal income tax treatment. Any retroactive payments or benefit increases attributable to the implementation of the Commission's determination will be paid in 2005 and will be reported on the 2005 1099R.

Timeframe for Implementation

The Commission recognizes that implementation of the new tables may take some time. The Boards are urged to move as quickly as possible. The Commission is aware of the complexity of this change and would hope that the implementation of these revised calculations will be completed prior to the end of the fiscal year.

We apologize for any inconvenience and thank you for your cooperation. If you have questions, please contact Barbara Phillips or Jim Lamenzo.